

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 8th July 1981

The day was dominated by renewed strength in the dollar which, after European markets had closed, soared to new high benchmark levels. Sterling was on the sidelines for most of the day and fared no worse than any other currency. The ERT closed unchanged at 93.5.

The pound closed at 1.8955 in New York yesterday but opened at 1.8860 this morning against a considerably firmer dollar. The pound was marked back to 1.8817 on the early exchanges as the dollar leapt further ahead but, when the Bundesbank intervened forcefully in support of the deutschemark, so the dollar turned back and most currencies settled down around opening levels. Sterling, however, traded up to 1.8945 before settling around 1.89. Early this afternoon the Bank's money market bulletin caused a nervous frisson when it was taken to carry an air of benign neglect. The pound fell to 1.8847 but, with early Americans buying a few pounds, the rate crested 1.89 again and closed steadily at 1.8924. After the close, the French franc weakened sharply following newswire comment on the Government's nationalisation plans. The IMM in Chicago then bid heavily for dollars on a broad front and sterling was dealt down to 1.8762. Euro-dollar and sterling deposits were both a touch firmer. The forward premium narrowed to 4 13/16% p.a. and the covered differential moved marginally in London's favour.

The pound gained  $\frac{1}{4}\%$  in Zurich (3.98 $\frac{1}{2}$ ) and Frankfurt (4.66 $\frac{1}{4}$ ), rather less in Paris (11.01 $\frac{1}{8}$ ). The dollar improved in all these centres to 2.1057 (later 2.1150), 2.4634 (later 2.48) and 5.8185 (later 5.8685) respectively. The Bundesbank sold \$50mn. early this morning but did not thereafter intervene. EMS was a little under 2% spread between the German and Belgian (40.28) currencies. The Belgians sold a very mixed bag of exchange worth \$55mn. The Danes bought \$11mn. and the French took in deutschemarks worth \$61mn. The yen closed at 229.90 in Tokyo, where the Japanese sold \$77mn., and firmed in London to 228.97.

Gold was very weak, especially this afternoon, when Federal Funds exceeded 20% again. Fixings were \$400 and \$397.75 and the closing price was \$395.50.

Operations:	Interest	+	\$20mn.
	Bangladesh	-	19
	Sundries	+	1
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		+	\$2mn.
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*JGH*  
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